

Group 1

DISABILITY RETIREMENT BENEFITS

Tennessee Consolidated
Retirement System

Effective January 1, 2007

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Dear TCRS Member:

If asked to consider the benefits of membership in the Tennessee Consolidated Retirement System (TCRS), most public employees would probably think first of the promise of continuing income after retirement. After all, that is the primary function of a retirement system. However, another important feature offered by TCRS is highlighted in this brochure: disability compensation. Disability compensation provides income to members who are unable to work until the normal retirement age because of a physical or mental disability.

This brochure is designed to help explain disability retirement to Group I members. If you have any further questions about disability retirement after reading this brochure, please do not hesitate to contact our disability counselor at 615-253-8693 or 1-800-770-8277, press #3.

Sincerely,

A handwritten signature in cursive script that reads 'Jill Bachus'.

Jill Bachus

ELIGIBILITY

TCRS provides benefits for three types of disability retirement: ordinary disability, accidental disability, and inactive disability. While some requirements differ, under all types, benefits are paid only to members who are unable to work due to a total and permanent disability that can be medically-determined. Whether the disability is physical or mental, it must prevent any substantial gainful employment.

Gainful employment means any type of work which results in earnings considered by the Social Security Administration to be gainful for disability recipients from that system -- currently \$900 or more per month. It is important to note that eligibility for TCRS disability benefits is *not* determined by a member's inability to perform his *current* job, but rather by the inability to perform *any type of gainful employment*.

ORDINARY DISABILITY

To become eligible for ordinary disability, a member must have five years of creditable service and suffer a disabling condition during a period of active employment prior to service retirement eligibility.

ACCIDENTAL DISABILITY

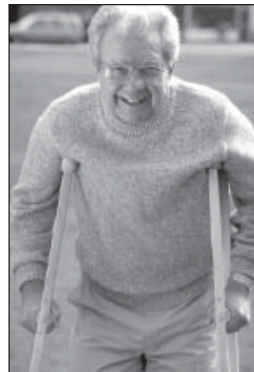
No minimum service is required for accidental disability benefits. However, the member must apply within one year of paid service or within two years of the injury and the disability must be the result of a job-related accident or injury that occurs without negligence on the part of the member while he is performing his duty.

INACTIVE DISABILITY

The system also provides special benefits for members who have five years of creditable service but who are not in service at the time of disability. This applies to political subdivision employees only if the provision was authorized by the local government. The benefit is the actuarial equivalent of the retirement benefit that would have been payable at age 55.

DISABILITY ALLOWANCE

Recipients of ordinary disability benefits receive 90 percent of what they would receive under regular service retirement. Service retirement benefits are calculated by using a formula which takes into account the member's average final compensation (AFC), years of creditable service, and the social security integration level.



Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

Creditable Service means membership service under the TCRS plus any other periods of service credited to the member by the retirement system (military service, sick leave, projected service, etc.).

Social Security Integration Level (SSIL) is an average of social security wage bases. It allows the benefit formula to provide a slightly higher benefit rate on a portion of the AFC. Since social security benefits are weighted in favor of the lower paid employee, TCRS weighs benefits slightly in the other direction so that total benefits can be more level in terms of percentage of income replaced. The social security integration level is \$48,600 for 2007 and \$51,600 for 2008. Since the social security wage base increases each year, it is expected that the SSIL will continue to increase in future years.

BENEFIT CALCULATIONS

The following example shows the formula methods used for computing a member's regular disability allowance.

The example uses a 50-year-old member with 20 years of service. The effective date of retirement is January 1, 2007, and the AFC is \$36,000.

The disability benefit is calculated as follows:

<u>Benefit Rate</u>		<u>AFC</u>		<u>Years of Creditable Service</u>	
.015	x	\$36,000	x	20 years	\$ 10,800
<u>Benefit Rate</u>		<u>AFC in Excess of SSIL</u>		<u>Years of Creditable Service</u>	
.0025	x	\$0	x	20 years	+ 0
<i>Annual Service Retirement Allowance</i>					\$ 10,800
<i>Disability Factor</i>					x .90
<i>Annual Disability Benefit</i>					\$ 9,720
<i>Divided by 12</i>					<u>12</u>
<i>Monthly Disability Benefit</i>					\$ 810
<i>Optional 5% Benefit Improvement*</i>					x 1.05
<i>Monthly Disability Benefit with 5% Improvement</i>					\$ 850

* A 5% benefit improvement on monthly retirement, disability, or death benefits was given to teachers and most state employees effective January 1, 1994. Employees of local governments are eligible if their governing body adopted the benefit by resolution.

PROJECTED SERVICE

Generally, disability benefits are calculated based upon the member's service at the time of disability. State employees, teachers, and employees of political subdivisions which have authorized this provision who have less than 20 years of service credit will be eligible for a minimum of ten years of service credit and will be granted a part or all of the additional credit they would have earned had they continued in service until age 60. The maximum total of actual and projected service credit is 20 years unless actual credit exceeds 20.

In the following example, a member's application for regular disability is approved with an effective date of January 1, 2007. The example uses a 48-year-old member, whose service credit totals 15 years, with an AFC of \$25,000. To determine projected service, the lesser of the following calculations is used.

$$\begin{array}{rcl}
 & 60 & \text{(Service Retirement Age)} \\
 - & \underline{48} & \text{(Actual Age)} \\
 & 12 & \text{(Possible Projected Service Based on Age)} \\
 \\
 & 20 & \text{(Maximum Projected Service)} \\
 - & \underline{15} & \text{(Actual Service)} \\
 & 5 & \text{(Possible Projected Service)}
 \end{array}$$

The member is eligible for up to 12 years of projected service. However, because the total of the projected service and the actual service exceeds the 20 year maximum, he receives only the five years of projected service (the lesser of the two calculations) needed to bring his total creditable service up to 20 years. This member's benefit would be calculated based on 20 years of service.

The following example uses a 56-year-old member with 11 years of creditable service. The projected service is determined as follows, again using the lesser of the two calculations:

$$\begin{array}{rcl}
 & 60 & \text{(Service Retirement Age)} \\
 - & \underline{56} & \text{(Actual Age)} \\
 & 4 & \text{(Possible Projected Service Based on Age)} \\
 \\
 & 20 & \text{(Maximum Projected Service)} \\
 - & \underline{11} & \text{(Actual Service)} \\
 & 9 & \text{(Possible Projected Service)}
 \end{array}$$

The member is eligible for up to four years of projected service. Because the total of the projected service and the actual service does not exceed 20 years, this member receives the full four years of projected service (the lesser of the two calculations). This member's benefit would then be calculated based on 15 years of service.

ACCIDENTAL DISABILITY ALLOWANCE

For anyone becoming a Group I member on or after July 1, 1997, accidental disability benefits are calculated using the ordinary disability benefit formula.

For anyone who became a Group I member before July 1, 1997, accidental disability benefits are calculated as follows. For teachers, state employees, and employees of political subdivisions which have

authorized the five percent benefit improvement, accidental disability benefits are equal to 52.5 percent of the member's AFC. Once the member reaches age 62 or begins receiving a social security benefit, the yearly benefit from TCRS will be reduced to 34.96 percent of the member's average final salary. If the member is employed by a political subdivision which has not authorized the five percent improvement, benefits are equal to 50 percent or 33 1/3 percent of the member's average final salary. All recipients of TCRS accidental disability benefits under this formula are required to apply for social security. If the member does not apply for social security, TCRS benefits will be paid at the lower rate.

INTEGRATION WITH WORKERS' COMPENSATION

All disability retirees who are receiving payments from the Division of Claims Administration or workers' compensation are limited to a total income from both sources of no more than 78.75 percent or 75 percent of their average final compensation for the appropriate period of time. In such cases, TCRS benefits will be reduced so that this limit is not exceeded.

BENEFIT PAYMENT OPTIONS

Under disability retirement, members have the opportunity to select one of five benefit payment plans offered by TCRS.



REGULAR OR MAXIMUM PLAN

Maximum monthly benefits are paid to the member for life, with all benefits ceasing at death. The beneficiary or the estate of a member electing this plan would not be eligible for ongoing monthly benefit checks, but would be entitled to the return of any portion of the member's contributions not already returned to the member as retirement benefits.

JOINT AND SURVIVOR ANNUITY OPTIONS

If the retiree chooses one of the optional payment plans, the regular or maximum plan benefit will be reduced to an actuarially-

determined percentage based on the ages at retirement of the retiree and the beneficiary.

- **Option I - 100 Percent Joint and Survivor:** A permanently reduced retirement allowance is paid during the retired member's life, with the provision that payment will continue after his death for the life of, and to, his designated beneficiary. Should the beneficiary die before the member, the monthly allowance remains the same.
- **Option II - 50 Percent Joint and Survivor:** A permanently reduced retirement allowance is paid during the retired member's life, with the provision that it will continue after his death at one half the rate paid to him and be paid for the life of, and to, his designated beneficiary. Should the beneficiary die before the member, the monthly allowance remains the same.
- **Option III - Modification of Option I:** A reduced retirement allowance is paid to the member and continued after his death to his beneficiary. If the beneficiary dies before the member, the retirement allowance reverts to the maximum amount.
- **Option IV - Modification of Option II:** A reduced retirement allowance is paid to the member and continued after his death to his beneficiary at one half the rate the member received. If the beneficiary dies before the member, the retirement allowance reverts to the maximum amount.

Additional information on selecting a payment option may be found in the booklet *Selecting a Payment Plan at Retirement*.

DISABILITY OPTION FACTORS

If the retiree chooses one of the optional payment plans, the regular or maximum plan benefit will be reduced to an actuarially determined percentage based on the ages at retirement of the retiree and the beneficiary. The option factors are subject to change by the Board of Trustees based upon the actuarial assumptions recommended by the actuary.

Examples of the percentages of the disability retirement benefits paid under the various options are shown in the following chart:

<u>Age of Retiree</u>	<u>Age of Beneficiary</u>	<u>Option I</u>	<u>Option II</u>	<u>Option III</u>	<u>Option IV</u>
40	40	.9131	.9546	.9075	.9515
40	45	.9295	.9635	.9225	.9597
40	50	.9448	.9716	.9363	.9671
45	40	.8780	.9350	.8720	.9316
45	45	.8988	.9467	.8908	.9423
45	50	.9192	.9579	.9091	.9524
45	55	.9381	.9681	.9261	.9616
50	40	.8314	.9079	.8253	.9043
50	45	.8561	.9224	.8475	.9175
50	50	.8818	.9372	.8704	.9307
50	55	.9072	.9513	.8927	.9433
52	45	.8353	.9102	.8266	.9051
52	50	.8630	.9265	.8512	.9196
52	52	.8743	.9329	.8610	.9253
52	55	.8910	.9424	.8756	.9337
55	45	.7999	.8889	.7914	.8835
55	50	.8302	.9072	.8180	.8999
55	55	.8620	.9259	.8456	.9163
55	60	.8933	.9437	.8726	.9320

EXAMPLE OF CALCULATION:

<u>Benefit Rate</u>		<u>AFC</u>		<u>Years of Creditable Service</u>	
.015	x	\$36,000	x	20 years	\$ 10,800
<u>Benefit Rate</u>		<u>AFC in Excess of SSIL</u>		<u>Years of Creditable Service</u>	
.0025	x	\$0	x	20 years	+ _____ 0
Annual Service Retirement Allowance					\$ 10,800
Disability Factor					x _____ .90
Annual Disability Benefit					\$ 9,720
Divided by 12					_____ 12
Monthly Disability Benefit					\$ 810
Optional 5% Benefit Improvement*					x _____ 1.05
Monthly Disability Benefit with 5% Improvement					\$ 850

Option Calculation - This example assumes that both the member and the beneficiary are age 50.

		<u>Member</u>	<u>Beneficiary</u>
Regular Plan		\$850	\$ 0
Option I	(\$850 x .8818)	\$749	\$749
Option II	(\$850 x .9372)	\$797	\$398
Option III	(\$850 x .8704)	\$740	\$740
Option IV	(\$850 x .9307)	\$791	\$395

APPLYING FOR DISABILITY RETIREMENT

To apply for disability benefits, TCRS members should first contact the TCRS disability staff by calling 615-253-8693 or 1-800-770-8277, press #3 or by writing:

Disability Office
Tennessee Consolidated Retirement System
10th Floor Andrew Jackson Building
Nashville, TN 37243-0230

The application process should be initiated as soon as it is possible to do so. Applications may be accepted up to 150 days prior to the date of retirement. If a member fails to submit an application within 150 days of his last paid day of service, the member will begin losing benefits, since applications may only be backdated by 150 days from the actual date of receipt by TCRS.

REQUIRED INFORMATION

- **Application for Disability Retirement Benefits:** Use this form to designate your choice of benefit payment plans and your beneficiary. TCRS also needs the signature and social security number of the beneficiary. *This retirement application should be submitted as soon as it is possible to do so -- even before the rest of your disability forms are complete.* Take this first step early to protect your rights under TCRS.
- **Statement of Disability:** This form asks you to describe the nature of your disability and to list the names and addresses of your doctors.
- **Vocational History:** This TCRS form asks for your educational and employment history.
- **Medical Records Release Authorization:** This TCRS form authorizes your healthcare provider(s), physicians, employees and agents to release or disclose to TCRS representatives all of your medical records.
- **Attending Physician's Report of Disability:** TCRS will provide a form on which your primary physician, psychiatrist, or psychologist may report your disability. It is your responsibility to have your doctor complete the form and attach any appropriate additional information such as hospital summaries, office notes, test results, a medical history, or a current update of your condition. One of these forms should be completed by each physician who has treated the disabling condition. A *Mental Functional Capacity Evaluation Form* is also available if necessary.
- **Application for Continuation of Medical Insurance Coverage After Retirement:** If certain eligibility conditions are met, employees who are covered by one of the state's group insurance

plans may continue their coverage by completing this form. Premiums will be automatically deducted from monthly benefits.

- **Report of Accidental Injury:** If you are applying for accidental disability benefits, this form is also required.

EVALUATION PROCESS

TCRS acknowledges receipt of all applications within two weeks. Contact our office if you do not receive an acknowledgment within this period. The TCRS disability staff will review your application for completeness. If additional medical information is needed, a request will be sent directly to the physician; a copy of the request will be sent to you.



TCRS will then forward the medical information to the Medical Panel, a group of three physicians licensed to practice in Tennessee. Each member of the Medical Panel returns his recommendation within three to four weeks. *Decisions to grant or deny disability retirement are based on the medical evidence you submit.* In cases which cannot be determined on the basis of the medical evidence alone, other factors, such as age, experience, and education, may be considered.

RECONSIDERATION

An applicant who has been denied disability retirement may request that his case be reconsidered if he has new evidence to support his request. If an applicant is denied disability benefits after his case is reconsidered, he may request an appeal with the director of TCRS.

APPEAL

Applicants may appeal decisions by writing to the director of TCRS. Informal conferences are held during which the applicant is given the opportunity to explain his case. The director makes every effort to resolve individual complaints during such informal conferences; however, members wishing to appeal the director's decision would have the right to further review through a contested case proceeding

before an administrative law judge. Requests for reconsideration or appeal must be made within 90 days of the initial denial to avoid losing any potential benefits.

EXPECTATIONS AFTER RETIREMENT

SERVICE RETIREMENT AGE

Upon reaching the TCRS service retirement age of 60, recipients of ordinary disability benefits are converted to service retirement and begin to receive the higher service retirement benefit. Upon reaching age 62 or qualifying for social security benefits, recipients of accidental disability benefits may have their benefits reduced as explained under “Accidental Disability Allowance”.

CONTINUING EVALUATION

TCRS may require annual medical evaluations until such time as the disability retiree reaches service retirement age. If medical or psychiatric evidence fails to support a continued disability, benefits will cease. Additionally, failure to submit required evidence on a timely basis will result in the suspension of benefits.

ANNUAL REPORT OF EARNINGS

Until such time as the disability retiree reaches service retirement age, he will be required to file an annual earnings report. Failure to submit such a report may result in benefit suspension. Income from the following sources need not be reported: social security, TCRS benefits, workers’ compensation, veterans benefits, civil service pensions, local school system pensions, disability insurance benefits, and interest earned on investments.

RETURN TO SERVICE

If a disability retiree returns to any employment which results in earnings in excess of the Social Security Administration’s definition of gainful employment, the disability benefit will be suspended. This amount is currently \$900 per month. If you recover from your disability and return to work for a TCRS participating employer, you will also return to active TCRS membership. At this time, service credit will once again begin to accrue and disability benefits will cease.

COST-OF-LIVING ADJUSTMENTS

TCRS monthly benefits are adjusted annually if the change in the Consumer Price Index (CPI) during the previous year was at least one half of one percent. The benefits of retirees who have been on the payroll at least one year are adjusted in July. The maximum annual cost-of-living adjustment is three percent.

Compounded cost-of-living adjustments are automatic for state employees, teachers, and higher education employees. Local government employees may receive simple or compound cost-of-living adjustments if authorized by the local government.

BENEFIT FORMULA CHANGES AFTER RETIREMENT

Retirees will also receive any increases due to changes in the benefit formula after their retirement date.

FEDERAL TAX TREATMENT

Disability benefits from TCRS are fully taxable until the benefit is converted to a regular retirement benefit at age 60 or death. After that point, TCRS will use the Simplified General Rule to determine the taxable portion of each monthly payment.

TCRS is required by law to withhold taxes from benefit payments unless the retiree or beneficiary elects to have nothing withheld.

Disability retirees may be able to claim the federal tax credit available to low income taxpayers who are permanently and totally disabled. For more information, consult IRS Publication 524, *Credit for the Elderly or the Disabled*.

SOCIAL SECURITY

TCRS disability benefits are separate from, and do not include, social security benefits. Contact your local social security office for information regarding benefits.

MEDICAL INSURANCE

Three separate insurance plans are operated by the state for the following groups of employees: state employees, teachers, and local government employees. Under certain conditions, participating employees may continue their coverage after retirement.

A state employee or teacher who becomes disabled may continue coverage if he was a participant in the State Group Insurance Plan or the Teacher Plan at the time of the injury or illness which resulted in his disability and meets the criteria for continuation of coverage as a disabled retiree. This criteria may be obtained on the Internet at www.state.tn.us/finance/ins/ or by calling 1-800-253-9981.



When the retiree reaches age 65 and becomes eligible for Medicare Part A, he may either continue this coverage or elect to participate in the Medicare Supplement Insurance Program.

A local government disability retiree may continue coverage if he was a participant in the Local Government Plan at the time of injury or illness which resulted in the disability. When the retiree becomes eligible for Medicare Part A or reaches age 65, the group coverage ends. He may then elect to participate in the Medicare Supplement Insurance Program.

Any TCRS retiree or dependent who has reached age 65 may be eligible to participate in the state's Medicare Supplement Program if application is made within 60 days of the Medicare eligibility date. If an application has not been received by the time of Medicare eligibility, notify the insurance provider.

TCRS will deduct your medical insurance premium from your monthly TCRS benefit payment each month, assuming your benefit payment is sufficient to cover the premium cost. If the premium is more than the retirement benefit, the Division of Insurance Administration will bill you and/or your employing agency.

LIFE INSURANCE

If you carried your employer's basic and/or optional group life insurance coverage while you were employed, you will have the opportunity to convert your coverage to an individual policy after you retire. You will then need to send your life insurance premium

payments directly to your insurance company; no premium deductions for life insurance are made through TCRS.

State employees who become totally and permanently disabled before reaching age 60 and who remain disabled for nine consecutive months may apply to the insurance carrier for a waiver of premium. If this is approved, you may continue your life insurance coverage without having to pay the premium for as long as you remain totally and permanently disabled and annually provide proof of disability.

FOR ADDITIONAL INFORMATION

Additional information on retirement may be obtained from the Benefits Office of the Tennessee Consolidated Retirement System at 615-253-8693 or 1-800-770-8277, press #3, from the *Summary of General Provisions* for members of TCRS, or www.treasury.state.tn.us/tcrs/.

Additional information on insurance may be obtained from the Department of Finance and Administration's Division of Insurance Administration or from the brochure *Continuing Insurance at Retirement*.

GLOSSARY OF KEY WORDS

Accidental Disability - A disability which results from a job-related accident or injury that occurs without negligence on the part of the member and while he is in the performance of duty. To be eligible, the member must be unable to work due to a medically-determined total and permanent disability.

Application Process - The filing of a retirement application, statement of disability, vocational history, medical records release authorization, attending physician's report, medical records, and insurance form with TCRS.

Earnings Reports - Disability retirees are required to file annual income reports to TCRS, excluding those earnings listed under “Annual Report of Earnings” in this pamphlet.

Gainful Employment - A member is not eligible to draw disability benefits from TCRS if he is able to engage in gainful employment. Gainful employment means any type of work which results in earnings exceeding the amount the Social Security Administration applies to its disability retirees. Currently, this amount is \$900 or more per month.

Membership Date - The later of (1) the date the member first enrolls in the TCRS and makes any required contributions or (2) in the case of an individual who has forfeited his membership by taking a refund of his member account, the date of re-entry to active membership in the system. A redeposit or back payment of previously withdrawn contributions does not restore a forfeited membership date.

Ordinary Disability - A disabling condition occurring during active employment after five years of creditable service. To be eligible, the member must be ineligible for service retirement, but unable to work due to a medically-determined total and permanent disability.

Physician’s Report - An *Attending Physician’s Report of Disability* form must be completed by each physician who has treated the disabling condition. This form should be filed with TCRS during the application process.

Social Security Integration Level - An average of social security wage bases used to integrate TCRS benefits with social security benefits.

Workers’ Compensation - TCRS benefits together with payments from the Division of Claims Administration and workers’ compensation may not total more than 78.75 or 75 percent of the retiree’s average final compensation, depending upon whether or not the five percent benefit improvement applies.

This pamphlet is intended to provide general information on the TCRS disability retirement provisions for Group I members. This booklet summarizes the provisions applicable on July 1, 2006. The information in this pamphlet is subject to legislative change and judicial interpretation. It does not supersede nor restrict procedures or authority established under state statute. Statutory authority for the plan is contained in Chapters 34-37 of Title 8, *Tennessee Code Annotated*. Wherever used for convenience, the masculine pronoun includes the feminine.

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